

SOLID AND WIDESPREAD GROWTH FOR SERVICES IN MAY

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- **Services output jumped 0.9% MoM-sa in May, topping our estimate and market consensus (both at +0.2% MoM-sa).** Compared to the same month in 2021, services output rose 9.2% YoY, also above our estimate and market consensus (both at +8.5% YoY). Moreover, May's print placed the headline index 8.4% above the pre-pandemic benchmark (February 2020) and at the highest reading seen since March 2015.
- **Zooming in on the details, widespread growth.** Services provided to families continued to strengthen (+1.9% MoM-sa), marking a healthy streak of three consecutive gains. Regarding the information services segment, it also delivered a positive print (+0.9% MoM-sa) for the third month in a row. Professional Services (+1.0% MoM-sa), transportation (+0.9% MoM-sa) and other services (+3.1% MoM-sa) bounced back the previous drops and contributed positively.
- **The diffusion index rose and reached 83% (vs. 58% in April).** Ten out of twelve activities posted growth at the margin, with ground transportation (+2.0% MoM-sa), information technology (+2.4% MoM-sa) and administrative services (+1.0% MoM-sa) standing out. Conversely, air transportation (-6.4% MoM-sa) disappointed and weakened at the margin. Moreover, the touristic activities index (composed of several segments of services related to touristic activities) continued to strengthen (+2.6%), making the third gain in a row and finally filling the gap to the pre-Covid benchmark.
- **May's result led to a solid carryover of 1.9% QoQ-sa to 2Q22 (+2.1% in 1Q22).** This figure suggests that cyclical services should contribute positively to overall activity in the period. We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period, in our view. Our tracking for 2Q22 GDP growth was updated to +0.7% QoQ-sa (from +0.6% previously), which implies significant upside risks to our 2022 growth forecast of +1.2%. For 2023, we expect a 0.6% GDP contraction.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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Figure 1 – Services Sector Breakdown

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ		Feb-20 %		
		Mar-22	Apr-22	May-22	Mar-22	Apr-22	May-22	Dec-21	Mar-22	May-22	May-22	
Total Services	100%	2.0	-0.1	0.9	11.6	9.4	9.2	0.9	2.1	1.9	8.4	
Families	8%	3.4	2.6	1.9	62.8	62.0	39.0	8.5	1.8	5.4	-7.0	
Accommodation and Food	7%	1.7	4.3	1.1	66.9	67.8	42.0	8.6	1.7	5.1	-7.9	
Other Services to Families	1%	9.6	-3.7	-0.9	43.8	34.7	23.6	5.7	6.3	7.7	-10.5	
Information	31%	1.7	0.8	0.9	3.9	1.6	4.0	1.7	-2.9	0.3	12.4	
Technology	26%	3.1	0.3	1.5	3.3	1.3	4.1	1.5	-3.0	0.8	12.7	
Telecommunication	19%	-0.9	0.3	0.7	-8.2	-8.4	-7.4	-3.0	-3.6	-2.6	-8.8	
Information Technology	7%	2.9	2.6	2.4	19.3	14.8	20.0	5.8	0.7	5.6	53.3	
Audiovisual	5%	5.4	-3.3	1.5	9.1	4.0	3.5	1.3	-1.8	1.2	-4.9	
Professional	23%	1.9	-0.5	1.0	9.7	7.8	9.6	-1.0	5.2	3.2	6.1	
Professional	7%	5.4	-2.4	1.1	13.1	4.8	6.6	-3.9	4.3	3.2	19.5	
Administrative	16%	-0.6	1.2	1.0	8.3	9.1	10.8	0.5	4.7	2.4	0.6	
Transportation	31%	3.4	-2.5	0.9	17.4	15.6	12.5	1.8	6.8	4.0	16.7	
Ground Transportation	18%	2.2	0.7	2.0	17.2	17.9	19.4	2.9	7.3	6.1	16.8	
Water Transportation	2%	-6.4	5.0	4.8	4.9	3.1	12.8	2.6	0.1	-1.8	27.1	
Air Transport	3%	17.8	0.1	-6.4	118.9	159.4	39.7	2.9	23.2	14.2	8.9	
Storage and Mail	9%	2.9	-6.0	0.2	6.4	-0.5	-2.9	-0.5	2.5	0.2	12.3	
Other Services	7%	1.4	-3.0	3.1	-4.4	-9.2	-4.0	-7.3	0.9	-0.3	1.0	
Touristic Activities	-	6.1	2.6	2.6	75.9	86.1	45.6	7.7	6.0	7.9	0.0	

Sources: IBGE, Santander.

The services output marked a new positive print in May. The headline index jumped 0.9% MoM-sa in May, beating our estimate and market consensus (both pointed to +0.2% MoM-sa, and compared to the same month in 2021, services output rose 9.2% YoY, a slight decline in comparison to April and above our call and market expectations (both at +8.5% YoY). May's print placed the headline index 8.4% above the pre-pandemic benchmark (February 2020), and the index reached the highest reading since March 2015.

Zooming in on the details, widespread growth. Services provided to families continued to strengthen (+1.9% MoM-sa), marking a healthy streak of three consecutive gains, while in the interannual metric, the index decelerated to +39% YoY, considerably above the 34% YoY pointed by our proprietary indicator (IGet). Information services marked the third gain in a row (+0.9% MoM-sa) and will likely rebound from the weak prints seen in 1Q22. Last but not least, professional services (+1.0% MoM-sa), transportation (+0.9% MoM-sa) and other services (+3.1% MoM-sa) bounced back the previous drops and contributed positively. Among services activities, the diffusion index rose and reached 83% (vs. 58% in April), with ten out of twelve activities posting growth at the margin. The highlights were ground transportation (+2.0% MoM-sa), information technology (+2.4% MoM-sa) and administrative services (+1.0% MoM-sa). Conversely, air transportation (-6.4% MoM-sa) disappointed and weakened at the margin. Regarding the post-Covid dynamics, only four of twelve activities remain below their pre-pandemic marks, notably food and accommodation (down 7.9%) and telecommunication (down 8.8%) and audiovisual services (down 4.9%). On the other side, information technology (up 53.3%), professional services (up 19.6%) and ground transportation (up 16.8%) are far above their benchmarks. Moreover, the touristic activities index (composed of several segments of services related to touristic activities) continued to strengthen (+2.6%), making the third gain in a row and finally filling the gap to the pre-Covid benchmark.

May's result led to a solid carryover of 1.9% QoQ-sa to 2Q22 (+2.1% in 1Q22). This figure suggests that cyclical services should contribute positively to overall activity in the period. Our tracking for 2Q22 GDP growth was updated to +0.7% QoQ-sa (from +0.6% previously), which implies relevant upsides risks to our 2022 growth forecast of +1.2%. We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period, in our view. For 2023, we expect a 0.6% GDP contraction. **For details on Santander's economic outlook, please refer to our last chartbook¹.**

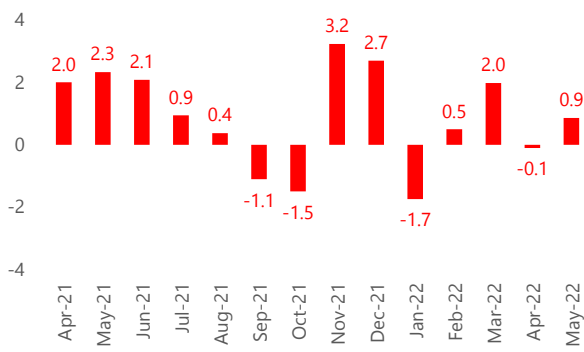
¹ Santander Brazil Economic Activity: "Chartbook – Upward Revisions in 2022, Concerns Regarding 2023 Intensify" – June 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-jun22>

Santander Brazil Special Report: "A Model to Forecast Probability of Recession in Brazil" – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

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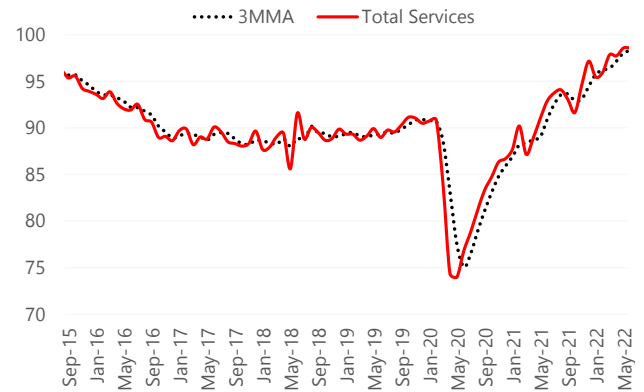


Figure 2.A – Total Services (sa, % MoM)



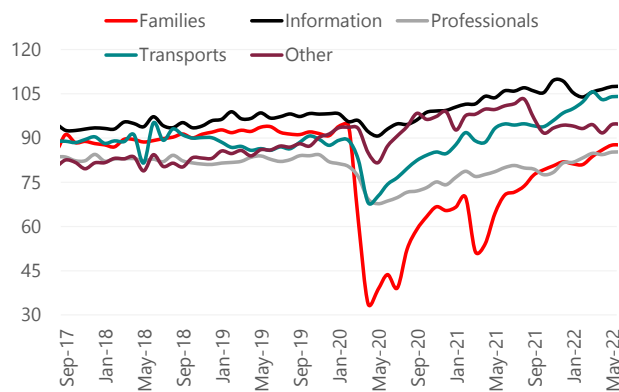
Sources: IBGE, Santander.

Figure 2.B – Total Services (sa, 2014=100)



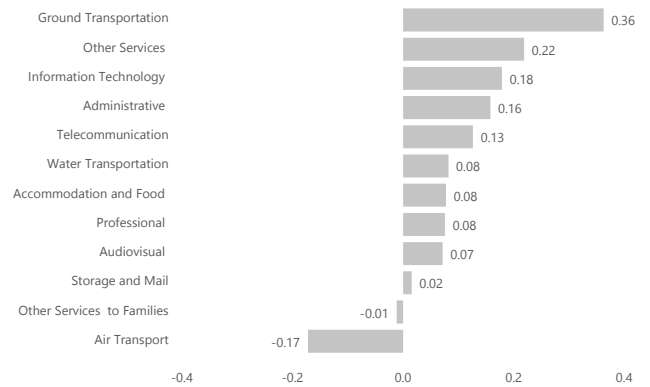
Sources: IBGE, Santander.

Figure 3.A – Services Breakdown* (sa, 2014=100)



*The Other Services subsector includes several activities such as brokerage, financial services, etc. Sources: IBGE, Santander.

Figure 3.B – Services Activities Contributions (sa, p.p.)



Sources: IBGE, Santander.

Figure 4 – “Heatmap” Showing Services Output by Subsector

	By Subsector (% MoM sa)											
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Total Services	2.08	0.94	0.37	-1.11	-1.50	3.23	2.69	-1.74	0.50	1.98	-0.11	0.86
Families	9.71	1.45	2.86	5.18	2.21	1.70	1.66	-0.82	-0.30	3.40	2.63	1.92
Accommodation and Food	8.59	5.00	2.52	4.14	2.66	2.49	1.43	-1.03	0.62	1.72	4.31	1.14
Other Services to Families	2.84	1.38	1.05	0.90	2.61	2.21	1.78	-0.06	1.74	9.56	-3.72	-0.92
Information	2.27	-0.09	1.07	-1.03	-0.52	3.95	-0.24	-3.53	-1.44	1.65	0.82	0.89
Technology	1.55	0.50	1.32	-1.02	-1.74	5.56	-0.43	-3.92	-2.29	3.06	0.33	1.46
Telecommunications	-0.55	0.71	-0.05	-1.57	-2.14	0.66	-0.80	-1.34	-2.57	-0.86	0.35	0.67
Information	0.20	1.92	2.66	-0.83	1.71	7.52	-3.80	-0.17	0.22	2.92	2.56	2.45
Audiovisual and News	9.42	-6.79	1.63	0.62	-1.39	1.76	1.61	-4.24	-1.32	5.38	-3.26	1.49
Professional	1.77	0.90	-1.04	-0.49	-2.38	1.06	4.07	0.23	1.81	1.87	-0.50	1.00
Technical and Professional	0.76	6.93	-6.44	2.11	-4.61	1.19	2.45	1.98	-2.21	5.41	-2.40	1.08
Administrative	2.29	-0.69	0.72	-1.43	-1.07	1.91	3.02	0.42	2.68	-0.59	1.17	0.99
Transportation	1.62	-0.39	0.46	-0.73	-0.30	2.24	2.66	1.47	2.30	3.35	-2.50	0.95
Ground Transportation	1.14	1.15	-1.32	-0.10	1.37	1.90	2.33	2.34	2.84	2.19	0.68	2.03
Water Transportation	-0.13	6.39	-2.58	-0.44	2.10	0.81	3.43	-0.39	0.15	-6.40	4.96	4.82
Air Transport	15.24	-8.94	6.94	-8.20	-6.45	14.00	12.28	7.15	-4.82	17.83	0.09	-6.38
Storage and Mail	-2.48	-0.99	2.01	-0.06	-1.36	1.15	-1.63	1.21	1.48	2.92	-5.97	0.18
Other Services	1.22	0.71	1.56	-6.30	-5.16	1.83	1.03	-0.30	-0.91	1.42	-2.98	3.12

Sources: IBGE, Santander.

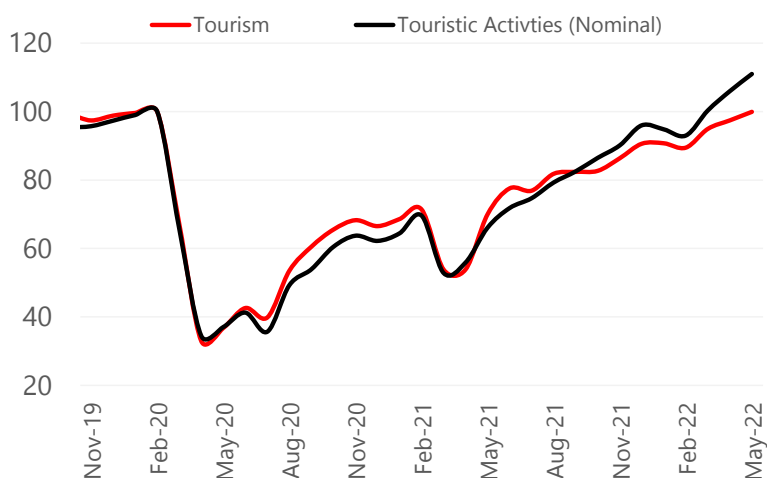


Figure 5 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Total Services	2.08	0.94	0.37	-1.11	-1.50	3.23	2.69	-1.74	0.50	1.98	-0.11	0.86
Accommodation and Food	0.58	0.34	0.17	0.28	0.18	0.17	0.10	-0.07	0.04	0.12	0.29	0.08
Other Services to Families	0.04	0.02	0.01	0.01	0.03	0.03	0.02	0.00	0.02	0.12	-0.05	-0.01
Telecommunications	-0.10	0.13	-0.01	-0.29	-0.40	0.12	-0.15	-0.25	-0.48	-0.16	0.06	0.13
Information	0.01	0.14	0.19	-0.06	0.12	0.55	-0.28	-0.01	0.02	0.21	0.19	0.18
Audiovisual and News	0.45	-0.33	0.08	0.03	-0.07	0.08	0.08	-0.20	-0.06	0.26	-0.16	0.07
Technical and Professional	0.05	0.49	-0.45	0.15	-0.32	0.08	0.17	0.14	-0.15	0.38	-0.17	0.08
Administrative	0.36	-0.11	0.11	-0.23	-0.17	0.30	0.48	0.07	0.43	-0.09	0.19	0.16
Ground Transportation	0.20	0.21	-0.24	-0.02	0.25	0.34	0.42	0.42	0.51	0.39	0.12	0.36
Water Transportation	0.00	0.11	-0.04	-0.01	0.04	0.01	0.06	-0.01	0.00	-0.11	0.08	0.08
Air Transport	0.41	-0.24	0.19	-0.22	-0.17	0.38	0.33	0.19	-0.13	0.48	0.00	-0.17
Storage and Mail	-0.22	-0.09	0.18	0.00	-0.12	0.10	-0.14	0.11	0.13	0.26	-0.53	0.02
Other Services	0.09	0.05	0.11	-0.44	-0.36	0.13	0.07	-0.02	-0.06	0.10	-0.21	0.22

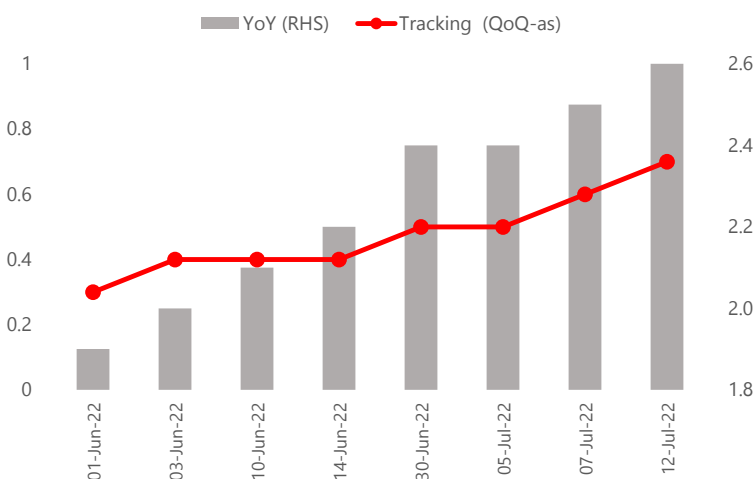
Sources: IBGE, Santander.

Figure 6 – Selected Segments of Services (sa, February 2020=100)



Sources: IBGE, Santander

Figure 7 – 1Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)



Sources: IBGE, Santander

**Figure 8 – Santander GDP Growth Nowcasting**

2Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
01-Jun-22	Labor Market	Apr-22	0.3	1.9	0.2	1.8
03-Jun-22	Industry	Apr-22	0.4	2.0	0.2	1.8
10-Jun-22	Retail Sales	Apr-22	0.4	2.1	0.2	1.8
14-Jun-22	Services	Apr-22	0.4	2.2	0.2	1.8
30-Jun-22	Labor Market	May-22	0.5	2.4	0.2	1.8
05-Jul-22	Industry	May-22	0.5	2.4	0.2	1.8
07-Jul-22	IBC-Br	Apr-22	0.6	2.5	0.2	1.8
12-Jul-22	Services	May-22	0.7	2.6	0.2	1.8

Sources: IBGE, Santander.



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